STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 98-577

February 17, 2000

MAINE PUBLIC UTILITIES COMMISSION
Investigation of Stranded Costs, Transmission And Distribution Utility Revenue Requirements And Rate Design of Maine Public Service Company

ORDER APPROVING PHASE II STIPULATION

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

We hereby approve a Stipulation that resolves all issues in Phase II of this investigation. With the resolution of the Phase II issues, we establish transmission and distribution utility rates for Maine Public Service Company (MPS) to be effective on March 1, 2000. On that date, MPS ceases to provide generation service and becomes a transmission and distribution utility. Ratepayers will receive generation service from the standard offer or a competitive electricity provider. The resulting T&D rates, when combined with the applicable standard offer rates, result in class average decreases in the following amounts compared to current bundled rates:

Residential	8.2%
Small Commercial	3.7%
Medium Commercial & Industrial	4.6 to 4.8%
Large Commercial & Industrial	4.6 to 5.2%

The overall decrease for MPS core customers is 6.1%.

II. BACKGROUND

By Order dated December 1, 1999 in this Docket, we approved a Phase I stipulation by which the parties agreed that MPS's T&D revenue requirement, exclusive of stranded costs, shall be approximately $16,640,000. The Phase I stipulation also provided for a “top down” methodology for establishing MPS’s core class rate design, and the proper design of the T&D version of Rate B, MPS’s stand-by rate.

The Phase I Stipulation and Order left open the determination of MPS’s stranded costs revenue requirement. The parties did agree that the stranded costs revenue requirement should be calculated using a rate effective period of two years beginning March 1, 2000. The determination of stranded costs had to be deferred until after the results of the Chapter 307 auction of the output of MPS’s Wheelabrator/Sherman

Qualifying Facility (QF) contract[1] and all costs associated with the sale of MPS's generating assets were finalized. Although the top-down principle was established in Phase I, the actual design of T&D rates could not be accomplished in Phase I. Only after standard offer service rates and the stranded costs revenue requirement were known, could current bundled rates be compared with the post March 1, 2000 combination of standard offer rates and T&D rates (including stranded costs). T&D rates would not be established in a vacuum, but would be established only after post-electric restructuring rates were compared with current bundled rates. Accordingly, a Phase II of this case was necessary.

In its Phase II filing, MPS proposed to apply 50% of the available value from its generation asset sale to offset its unrecovered Seabrook investment, and to amortize the remaining available value over four years. When combined with the forecasted revenue to be received from the sales of the output of MPS's QF contract, this amortization would result in an approximately levelized annual stranded cost revenue requirement of $13.4 million through the year 2009.[2] By 2010, MPS proposed to recover the last of its regulatory asset referred to as "deferred fuel," meaning deferred expenses associated with the Wheelabrator/Sherman buyout, and Maine Yankee expenses during the rate plan period. The Seabrook regulatory asset is the only other stranded cost to be recovered after 2009. The 30-year amortization period of Seabrook will end in 2016.

When combined with the standard offer rates for its service territory, MPS's Phase II-proposed T&D rates resulted in a 3.9% rate decrease on average over current bundled MPS rates. Because MPS proposed to eliminate the inverted block structure of its residential rate, the 3.9% class average decrease resulted in approximately a 4% rate increase for residential customers that use between 100 and 400kWh per month and a 9% decrease to residential customers with usage of 1000kWh per month.

III. DESCRIPTION OF THE STIPULATION

Only the Office of the Pubic Advocate (OPA) and MPS have been active parties in Phase II of this proceeding. The OPA and MPS stipulate that the annual revenue requirement of MPS's stranded costs for the period March 1, 2000 through February 28, 2002 shall be $12,503,000. The OPA and MPS also stipulate that MPS shall be allowed to offset its unrecovered investment in the Seabrook Nuclear Power Plant by an

[1] Chapter 307 implements section 3204 of the Restructuring Act that does not require the divestiture of QF contracts but does require the periodic sale of the contractual rights to the capacity and energy.

[2] In the years 2002 through 2006, MPS forecasted the need to create additional regulatory assets of $600,000 to $2.1 million per year in order to levelize the revenue requirement in those years.

amount equal to 35% of the available value from MPS's generation asset sale, which offset results in $15,100,000 of unamortized Seabrook investment.[3]

The OPA and MPS agree that MPS should eliminate the inclining block for the Residential Rate A and to replace it with a flat usage rate. However, contrary to MPS's filing, the OPA and MPS agree to eliminate Rate A's inclining block structure without increasing the total electric monthly bill of any residential customer. MPS would accomplish this result by reducing the annual revenue requirement of Residential Rate A customers in the amount of $915,000. The revenue requirement reduction is achieved by a reduction in the available value. Thus, the annual revenue requirement associated with stranded costs is reduced from $13.4 million to approximately $12.5 million.

The parties also agree that the implementation of the top down method as described in the Phase I Order and Stipulation results in an anomaly in MPS's time-of-use rates, by producing a negative energy rate in some time periods. Thus, the OPA and MPS agree to eliminate the anomaly by determining the non-winter energy kWh in each of its time-of-use rates by setting those rates such that the ratio of the on-peak non-winter energy rate to the off-peak non-winter energy rate equals the ratio of the on-peak winter energy rate to the off-peak winter energy rate.

The advisors participated in the settlement conferences that produced a stipulation between the OPA and MPS, and recommend that the Commission approve the stipulation. No party opposed the Stipulation.

IV. DECISION

We have reviewed the Stipulation and find that it represents a just and reasonable resolution of the issues in this second phase of our investigation. The Stipulation, therefore, meets one of the criteria we have set for approving stipulations: that the result is reasonable and not contrary to any legislative mandate. The other two criteria are also met. The process that led to this Stipulation was fair to all parties: settlement occurred after all parties had opportunity to develop their positions and the negotiation took place at a settlement conference initiated by the advisors to which all parties were invited. Phase I parties that did not participate in the settlement conferences were also notified by the Examiner of the stipulated results reached by OPA and MPS, and none of the non-participating parties filed comments or objections. Last, the parties joining the Stipulation represent a sufficiently broad spectrum of interest such that the Commission can be sure that there is no appearance or reality of disenfranchisement. The OPA itself brings a broad spectrum of interest to any proceeding. Moreover, as all intervenors had the opportunity to participate in

[3] The stranded investment revenue requirement for the unrecovered Seabrook investment, i.e. the unamortized Seabrook investment grossed up for taxes, is $25,122,000.

negotiations and to object to the settlement, but did not do so, there is no appearance or reality of disenfranchisement.

We agree with the stipulating parties that it makes sense to eliminate the residential inverted rate block. For a T&D utility, the inverted block - designed to discourage usage and reflect generation costs - has little if any cost justification. We are reluctant, however, to implement any rate design change that would result in adverse bill impacts at the time the electric industry is restructured. Rate increases of approximately 4% to the residential users between 100 and 400kWh is obviously such an adverse bill impact. We can accept the compromise that achieves the preferred rate design result of eliminating the residential inverted rate block but accomplishes the result by use of available value to avoid the adverse bill impacts. The rates that result from this compromise produced rate decreases in the following amounts by rate class:

Residential	8.2%
Small Commercial	3.7%
Medium Commercial & Industrial	4.6 to 4.8%
Large Commercial & Industrial	4.6 to 5.2%.

The overall decrease for MPS core customers is 6.1%.

We agree with the stipulating parties that the top-down result of negative or zero cost time of use energy charges is an anomalous result that produces an unacceptable rate design. We find that the compromise to eliminate the anomaly is reasonable and consistent with the principles established in the Phase I Order.

To conclude, we find that the stipulation that uses some available value to write-off 35% of unrecovered Seabrook investment and some to eliminate the negative impact of the flattening of the residential inverted rate block, and uses the remainder of available value to levelize the likely stranded cost revenue requirement over 10 years and in an amount during the first rate effective period that produces a modest rate decrease at the time of restructuring, is consistent with our Phase I Order and results in setting just and reasonable T&D rates.

Dated at Augusta, Maine, this 17th day of February, 2000.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Nugent
Diamond

THIS ORDER HAS BEEN DESIGNATED FOR PUBLICATION

STATE OF MAINE PUBLIC UTILITIES COMMISSION	))	Docket No. 98-577
Public Utilities Commission, Re: Investigation of Stranded Costs, Transmission And Distribution Utility Revenue Requirements, And Rate Design of Maine Public Service Company (Phase II)	)))))	January 24, 2000 Stipulation

The undersigned, being parties to this proceeding, agree as follows:

1. Purpose. This Stipulation is intended to conclude those issues left unresolved or unaddressed by the October 14, 1999 Phase I Stipulation in this Docket (approved by the Commission by Order dated December 1, 1999). These issues are: (a) the exact level of Maine Public Service Company's (MPS) recoverable stranded investment and the level of recovery of that investment during the next rate-effective period; (b) the elimination of the inverted block structure for MPS's Residential Rate A; (c) the proper on-peak to off-peak ratio for MPS's summer TOU rates; and (d) miscellaneous accounting orders.

2. Recoverable Stranded Investment. MPS's total legitimate, verifiable and unmitigable recoverable stranded investment for the rate-effective period, together with the total available value from its generation asset sale, as of March 1, 2000, and subject to Paragraph 6(c) of this Stipulation, are the amounts shown on Attachment A to this Stipulation, which attachment is made a part of this Stipulation. The parties further agree that MPS shall be allowed to offset its unrecovered stranded investment in Seabrook by an amount equal to 35% of the available value from its generation asset sale, which offset results in a total recoverable stranded investment in Seabrook of $25,,122,000, as shown on Attachment A.

3. Rate Period Stranded Investment Recovery. The total annual amount of MPS's stranded investment recoverable through retail rates for the period March 1, 2000 through February 28, 2002 shall be $12,503,000 as shown on Attachment A to this Stipulation.

4. Residential Rate A. Effective March 1, 2000, MPS shall eliminate the inclining block for its Residential Rate A and shall replace it with a flat rate under which each customer is charged the same amount for each kwh of usage without regard to the number of kwhs used by that customer. The parties agree that, in order to eliminate Rate A's inclining block structure without thereby increasing the total electric monthly bill of any residential customer, MPS shall reduce the annual revenue requirement of this Residential Rate A customer class in the amount of $915,000. This reduction shall not affect the amount of the T&D utility annual revenue requirement of $16,640,000 set forth in Paragraph A(2) of the October 14, 1999 Stipulation nor the annual recoverable stranded investment of $12,503,000 set forth in Paragraph 3 above.

5. Summer On-Peak to Off-Peak Energy Ratios. To eliminate certain anomalies in MPS's time of use rates that would result from the application of the top-down methodology in the October 14, 1999 Stipulation, the parties agree that MPS shall determine the non-winter energy (kwh) rates in each of its time of use rates by setting them such that the ratio of the on-peak non-winter energy (kwh) rate to the off-peak non-winter energy (kwh) rate equals the ratio of the on-peak winter energy (kwh) rate resulting from application of the top-down methodology set forth in Paragraph 6C of the October 14, 1999 Stipulation for the time of use rate class.

6. Miscellaneous Accounting Orders.

Accounting Orders. In determining the amount of stranded cost recovery for the rate effective period shown on Attachment A, the Company incorporated certain accounting methodologies to the various elements of stranded costs. With the parties agreeing on the amount of stranded cost recovery for the two-year period ending February 28, 2002, MPS has requested and by approval of this Stipulation, shall receive the following accounting orders:

(a) Carrying Costs on Deferred Fuel Balances. On March 1, 2000, the Company estimates that its deferred fuel costs, as described in Paragraph 10 of the October 14, 1999 Stipulation, will be approximately $10,919,000. Based on the schedules on Attachment A provided to support the determination of the $12,503,000 of stranded cost recovery, the Company will begin to amortize $900,000 of these costs for the period March 1, 2000 to February 28, 2002. The Company will accrue carrying costs on the unrecovered balance at the net of tax cost of capital rate, i.e. 7.98%. The cost of capital rate was set forth in the Phase I Stipulation and approved by the Commission.

(b) Amortization of Wheelabrator-Sherman Buydown Costs. Beginning January 1, 2001 and continuing through February 28, 2002, the Company will begin amortizing the W-S buydown costs of $8,706,000 at the rate of $1,451,000 per annum.

(c) Update of estimates to Actuals. For the following items, the Company has used its best estimates for the determination of stranded costs and will be allowed to adjust its books of accounts for its stranded cost assets or liabilities to reflect actual numbers through February 29, 2000 (references are to schedules provided with Attachment A).

(i) Carrying costs on available value and revenue attributable to foregone rate increase (LB-2, page 2B);

(ii) Maine Yankee replacement fuel deferral (LB-3, page J);

(iii) Available value from asset sale when all legal costs are finalized (LB-6, page 4A); and

(iv) Incremental power supply costs (LB-6, page 5).

(d) Employee Termination Costs. In determining the annual transmission and distribution revenue requirement set forth in the October 14, 1999 Stipulation, the Company had estimated termination costs associated with personnel displaced by the sale of the Companies generating assets. The Company will be allowed to amortize these costs over four years. In addition, the Company will be allowed to defer all verifiable termination costs that exceed its estimate of $462,000. At the next rate review, the Company will amortize over two years, the balance of any remaining termination costs.

7. Stipulation Not Precedential. The making of this Stipulation by the parties shall not constitute precedent as to any matter of law or fact, nor shall it permit any party from making any contention or exercising any right, including rights of appeal, in any other commission proceeding or investigation or any other trial or action.

In Witness Whereof, the parties have caused this Stipulation to be signed by their respective attorneys.

January 24, 2000 MAINE PUBLIC SERVICE COMPANY

By _____
Stephen A. Johnson, General Counsel

January 24, 2000 OFFICE OF THE PUBLIC ADVOCATE

By _____
William C. Black

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.